

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 16, 2011 Through April 16, 2012**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 16, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Grayson County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,720,173 for the districts for 2011 taxes, retaining commissions of \$358,998 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,351,613 to the districts for 2011 taxes. Taxes of \$1,318 are due to the districts from the Sheriff and refunds of \$511 are due to the Sheriff from the taxing districts.

Report Comment:

2011-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Rick Clemons, Grayson County Sheriff

Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the Grayson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Grayson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grayson County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Rick Clemons, Grayson County Sheriff

Members of the Grayson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

October 18, 2012

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 626,051	\$ 1,525,025	\$ 4,170,460	\$ 1,177,539
Tangible Personal Property	64,954	211,549	355,109	314,346
Fire Protection	2,549			
Increases Through Exonerations	9	30	52	54
Franchise Taxes Billed	47,729	141,744	263,571	
Additional Billings	99	247	639	234
Gas Property Taxes	323	767	2,150	606
Limestone, Sand and Mineral Reserves	414	984	2,759	777
Bank Franchises	89,998			
Penalties	5,483	13,618	36,233	10,695
Adjusted to Sheriff's Receipt	304	(150)	(373)	(175)
Gross Chargeable to Sheriff	837,913	1,893,814	4,830,600	1,504,076
<u>Credits</u>				
Exonerations	2,504	6,010	16,677	4,719
Discounts	12,711	27,557	70,826	23,525
Delinquents:				
Real Estate	14,415	35,362	95,641	26,947
Tangible Personal Property	589	1,855	3,227	3,146
Gas	1	2	5	1
Franchise Taxes	53	167	290	
Total Credits	30,273	70,953	186,666	58,338
Taxes Collected	807,640	1,822,861	4,643,934	1,445,738
Less: Commissions *	34,325	77,472	185,757	61,444
Taxes Due	773,315	1,745,389	4,458,177	1,384,294
Taxes Paid	771,292	1,743,837	4,453,660	1,382,824
Refunds (Current and Prior Year)	732	1,714	4,813	1,496
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 1,291	\$ (162)	\$ (296)	\$ (26)

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
 RICK CLEMONS, SHERIFF
 SHERIFF'S SETTLEMENT - 2011 TAXES
 For The Period April 16, 2011 Through April 16, 2012
 (Continued)

* Commissions:

4.25% on \$ 4,076,239
 4% on \$ 4,643,934

** Special Taxing Districts:

Library District	\$	(58)
Health District		(26)
Extension District		27
Hospital		(69)
Caney Creek Watershed		(24)
Big Reedy Watershed		(12)
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Due District or		
(Refunds Due Sheriff)	\$	(162)
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GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Grayson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2011 through April 16, 2012.

B. Gas and Limestone, Sand, and Gravel Property Taxes

The gas property and limestone, sand and gravel property tax assessments were levied as of January 1, 2011. Property taxes are billed to finance governmental services. The collection period for these assessments was November 15, 2011 through April 16, 2012.

C. Franchise Taxes

The franchise assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2011 through April 16, 2012.

Note 4. Interest Income

The Grayson County Sheriff earned \$987 as interest income on 2011 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Grayson County Sheriff collected \$57,865 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of April 16, 2012, the Sheriff owed \$1,458 in 10% add-on fees to his fee account.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2007	\$857
2008	\$1,270
2009	\$5,323
2010	\$365
2011	\$648

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff owes \$857 for 2007 taxes.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Grayson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated October 18, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Grayson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Grayson County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Grayson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal line extending to the right.

Adam H. Edelen
Auditor of Public Accounts

October 18, 2012

COMMENT AND RECOMMENDATION

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

During our review of internal controls, we noted that the Sheriff's office has a lack of segregation of duties. The bookkeeper prepares tax reports, distributes tax payments, reconciles the checking accounts, collects money, prepares deposits, and makes deposits. Documented compensating controls were not in place to offset this control deficiency. We recommend the following procedures be implemented as compensating controls:

- The Sheriff should document approval of monthly tax reports.
- Cash counts should be documented and the person performing the count should sign off. If cash is recounted, the person recounting should document the process.
- Cash should periodically be recounted and deposited by the official. The official should document the cash count and deposit.
- Bank reconciliations should be checked and approved by someone other than the preparer of the bank reconciliation. This process should be documented on the bank reconciliation.

Sheriff's Response: We are trying harder to segregate duties to all clerks.

